S T A T E O F M I C H I G A N

STATE OFFICE OF ADMINISTRATIVE HEARINGS AND RULES

FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of **MICHIGAN GAS UTILITIES CORPORATION** for authority to implement a gas cost recovery plan and factors for the 12-month period ending March 31, 2011	)	Case No. U-16145

NOTICE OF PROPOSAL FOR DECISION

The attached Proposal for Decision is being issued and served on all parties of record in the above matter on December 3, 2010.

Exceptions, if any, must be filed with the Michigan Public Service Commission, P.O. Box 30221, 6545 Mercantile Way, Lansing, Michigan 48909, and served on all other parties of record on or before December 17, 2010, or within such further period as may be authorized for filing exceptions. If exceptions are filed, replies thereto may be filed on or before December 29, 2010. **The Commission has selected this case for participation in its Paperless Electronic Filings Program. No paper documents will be required to be filed in this case.**

At the expiration of the period for filing of exceptions, an Order of the Commission will be issued in conformity with the attached Proposal for Decision and will become effective unless exceptions are filed seasonably or unless the Proposal for

Decision is reviewed by action of the Commission. To be seasonably filed, exceptions must reach the Commission on or before the date they are due.

STATE OFFICE OF ADMINISTRATIVE
HEARINGS AND RULES
For the Michigan Public Service Commission

James N. Rigas

Digitally signed by James N. Rigas
DN: cn=James N. Rigas, c=US, email=jnrigas@michigan.gov
Date: 2010.12.03 15:58:19 -05'00'

James N. Rigas
Administrative Law Judge

December 3, 2010
Lansing, Michigan
dmp

STATE OF MICHIGAN

STATE OFFICE OF ADMINISTRATIVE HEARINGS AND RULES

FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of **MICHIGAN GAS UTILITIES CORPORATION** for authority to implement a gas cost recovery plan and factors for the 12-month period ending March 31, 2011	))))))	Case No. U-16145

PROPOSAL FOR DECISION

On December 30, 2009, pursuant to 1982 PA 304, MCL 460.6h *et seq*., Michigan Gas Utilities Corporation (MGUC or the Company) filed with the Michigan Public Service Commission (Commission) its application together with supporting testimony and exhibits. MGUC requests approval of its gas cost recovery (GCR) plan and factors for the 12-month period ending March 31, 2011. On May 3, 2010, MGUC supplemented and amended its testimony and exhibits[1].

Pursuant to due notice a prehearing conference was held in this matter on February 16, 2010. At that time, the Michigan Attorney General Michael A. Cox (Attorney General) and the Residential Ratepayer Consortium (RRC) were recognized as Intervenors. The Commission Staff also entered its appearance and participated in the hearing. A schedule was then established for the remainder of the proceeding.

On August 26, 2010, the parties entered into a partial settlement agreement in this case. On September 14, 2010, the Commission approved the partial settlement

[1] MGUC has requested the approval of a revised GCR factor of $7.4350 per Mcf.

agreement. The partial settlement agreement addressed three issues: it authorized a GCR factor of $7.4350 per thousand cubic feet; it set a contingency mechanism for that factor per Attachment 1 to the settlement; and it put in place an immediate moratorium on the Fixed Price Purchase program relating to purchases for 2012-2013 and beyond. The partial settlement specifically allows for the GCR factor to be modified in a final order of the Commission.

The hearing in this matter reconvened on August 27, 2010. Pursuant to the stipulation of the parties all previously filed prepared direct, supplemental and rebuttal testimony and exhibits were admitted into evidence without cross-examination.

Briefs have been filed by MGUC, the Attorney General and the Staff. Reply Briefs have been filed by MGUC and the Attorney General.

MGUC presented the testimony of three witnesses, the first of which was Mr. David J. Tyler, Manager, Regulatory Services for the State of Michigan.[2] Mr. Tyler presented MGUC's calculation of the base GCR factor of $7.4350 per Mcf for the period April 1, 2010 through March 31, 2011, and the forecasts of GCR, Choice and Transportation customer load requirements. The witness also addressed the forecast of Company-Use, Gas-In-Kind and Lost-and-Unaccounted-for-Gas and MGUC's actual 2009-2010 under-recovery. MGUC proposes to roll-in a 2009-2010 GCR under-recovery of $4,064,858. Finally, Mr. Tyler discussed the FERC proceedings the Company is participating in and/or monitoring and responded to the presentations of the Attorney General and the RRC.

[2] Mr. Tyler's direct, supplemental and rebuttal testimony can be found at 2 Tr 14-43. The witness sponsored Revised Exhibits A-1, A-2 and A-3, Exhibits A-5, A-8 and Revised Exhibit A-10.

MGUC's second witness was Mr. Kent E. Huzzey. Mr. Huzzey is employed by Integrys Business Support LLC, as Manager – Gas Supply for Michigan Gas Utilities Corporation.[3] The witness presented an overview of the 2010-2011 GCR supply plan and peak day analysis. The Company projects a total 2010-2011 GCR plan gas supply volume of 17,364,583 Mcf and estimates total gas costs of $129,115,722. *See* Exhibit A-7. The supply cost calculation was derived by utilizing a five-day average for the NYMEX prices following a six-step pricing process. Mr. Huzzey testified that he expects commodity gas prices to increase.

Mr. Huzzey also addressed the storage management plan and identified three Company-owned and operated underground gas storage facilities located in Calhoun County, Michigan. This on-system storage is supplemented with two leased storage agreements; one with ANR and the other with MichCon's Washington 10. In response to alternative recommendations regarding storage operations, Mr. Huzzey dismissed these as impractical given the Company's operational constraints.

Mr. Huzzey testified MGUC's transportation arrangements are with ANR Pipeline Company, Panhandle Eastern Pipe Line Company, Michigan Consolidated Gas Company and Consumers Energy Company.

Mr. Huzzey also described MGUC's supply purchasing plan as consisting of fixed price gas acquired pursuant to the Fixed Price Purchasing (FPP) Guidelines established in Case No. U-15450. The witness represented the Company has executed all purchases consistent with the FPP Guidelines for the 2010-2011 GCR plan. The witness testified MGUC's supply purchasing plan also consists of term index priced gas,

[3] Mr. Huzzey's direct, supplemental and rebuttal testimony can be found at 2 Tr 37-89. The witness sponsored Exhibit A-6, Revised Exhibit A-7, Exhibit A-9, Revised Exhibit A-11, and Exhibits A-12 and A-13.

as well as First-of-the Month base-load supplies. Daily purchases would also be made on an as-needed basis.

Finally Mr. Huzzey presented rebuttal to the presentations of the Attorney General and the RRC.

MGUC's third witness was Mr. John P Wirick, Jr. Mr. Wirick is employed by Integrys Business Support LLC, as Coordinator, Gas Supply Modeling.[4] The witness presented the Company's peak day analysis. Mr. Wirick testified that MGUC's 2010/2011 GCR peak day requirement is 217,720 Mcf. This peak day requirement represents a reduction of 1,625 Mcf from the 219,345 Mcf agreed to in Case No. U-15700. *See* Exhibit A-4. Mr. Wirick also responded to the presentations of the Attorney General and the RRC.

The Attorney General presented a single witness, Mr. Sebastian Coppola, an independent business consultant.[5] Mr. Coppola addressed MGUC's peak day gas requirements forecast, gas supply strategy, the fixed price gas purchase program and the large prior year gas cost under-recovery to be rolled into the 2010-2011 GCR factor. In rebuttal, the witness addressed certain recommendations of the RRC.

The RRC presented a single witness, Mr. Frank J. Hollewa, an independent energy consultant.[6] Mr. Hollewa analyzed MGUC's FPP program and the results from the past four GCR periods and addressed the Company's fixed price purchases, peak day estimates, and planned storage operations.

---

[4] Mr. Wirick's direct and rebuttal testimony can be found at 2 Tr 90-128. The witness sponsored Exhibits A-4, A-14 and A-15.
[5] Mr. Coppola's direct and rebuttal testimony can be found at 2 Tr 129-169. The witness sponsored Exhibits AG-1 and AG-2.
[6] Mr. Hollewa's direct testimony can be found at 2 Tr 170-193. The witness sponsored Exhibits RRC-1 through RRC-3.

POSITIONS OF THE PARTIES

As noted above, the Commission approved a partial settlement in this case that authorized a base GCR factor of $7.4350 per Mcf pending a final order in this case, subject to adjustment in accordance with the contingency matrix set forth in Attachment 1 to the settlement agreement; and established an immediate moratorium on MGUC's FPP program relating to future purchases for 2012-2013 and beyond. Several issues have been raised through the presentations of the Attorney General and the RRC and remain unresolved. These are addressed below.

MGUC

MGUC takes the position that the record evidence presented in this case supports approval of its amended 2010-2011 GCR plan, GCR factor of $7.4350 per Mcf and the Company's five-year forecast. Because none of the positions taken by Staff in its Brief are contrary to the Company's position, MGUC offered no reply to the Staff.

MGUC has responded to the positions advocated by the Attorney General. The Attorney General has recommended that the Commission direct the Company to submit in its next GCR plan filing an explanation of the need for the interruptible transportation contract with Consumers Energy Company (Consumers Energy), an exhibit demonstrating how MGUC's transportation and storage capacity will meet peak day demand requirements, and an explanation of how any shortfall or excess in capacity will be addressed.

MGUC maintains its filed plan is not incomplete, as argued by the Attorney General. MGUC asserts it intends to issue requests for bids for packages of supply both in the form of call or swing supply to address any possible supply/capacity gap in the 2010-2011 plan. The Company represents it is not uncommon to finalize supply and capacity arrangements during the plan period. MGUC states its planned use of an interruptible transportation contract with Consumers Energy during peak periods does not create a risk since there has been no interruption of supply in prior years. MGUC asserts no credible support for the Attorney General's speculation has been offered.

With regard to the Attorney General's recommendation regarding purchasing strategy guidelines, MGUC states it has acquired all of the fixed price requirements for the 2010-2011 GCR plan, as well as the 2011-2012 GCR plan. In addition, MGUC notes the parties have agreed in the partial settlement in this case to a moratorium on future FPPs for the 2012-0213 period and beyond. As a result, MGUC contends that the appropriate methodology for securing fixed price gas would be ripe for debate in a future GCR plan proceeding.

With regard to the five-year forecast, MGUC states Exhibit A-3 and Mr. Tyler's direct and supplemental testimony set forth the projected gas requirements of GCR customers for 2010-2011 through 2014-2015. Exhibit A-7, along with the direct testimony of Mr. Huzzey, presents the Company's anticipated sources and costs of supply and provides descriptions of all known relevant major contracts for the five-year period. MGUC contends the record evidence supports a finding that the Company's five-year forecast meets the requirements of MCL 460.6h(4).

Finally, MGUC takes the position there is no support in the record for the Attorney General's recommendation to require the Company to develop a different GCR forecasting methodology. MGUC maintains it continues to work to improve its GCR forecasting and it is therefore unnecessary for the Commission to require the Company to develop a more accurate and timely forecasting methodology.

Staff

Staff states it supports the GCR factor established in the settlement at $7.4350 per Mcf. Staff represents this factor is supported by the evidence submitted by MGUC in its rebuttal filing and there is no evidence in the record that would justify adjusting this factor in a final order in this case.

Staff states it also supports use of the contingency matrix as agreed to in the partial settlement. Staff contends this matrix is supported in the Company's rebuttal filing and is consistent with the authorized factor of $7.4350 per Mcf. Staff submits that there is no persuasive testimony on the record that would support changing this matrix or changing the approach to a contingency mechanism, such as that proposed by the RRC.

With respect to the FPP program, Staff supports the settlement's suspension of that component of purchases, but observes that a purchase strategy is an integral component of the Company's GCR plan. Staff maintains the current suspension does not, therefore, eliminate MGUC’s obligation to develop a purchase strategy. Staff submits that the Company must address this issue in its next general GCR plan case.

With respect to those remaining issues that were not resolved by the partial settlement agreement, Staff notes the Attorney General and the RRC submitted testimony that controverts or provides alternatives to the Company's position on several matters.

Staff states Mr. Coppola recommended a linear adjustment to peak day requirements, based on a percentage change in GCR sales. Staff notes the Company's rebuttal witness, Mr. Wirick, addressed Mr. Coppola's recommendation. Staff states it supports using the Company peak day forecast of 217,720 Mcf as indicated in the testimony of Mr. Wirick.

In response to Mr. Coppola's recommendation that the Commission order MGUC to develop a more accurate and timely forecasting methodology, Staff notes the Company's witness, Mr. Tyler, addressed this issue in his rebuttal testimony. Staff takes the position that it has concerns about large under-or over-recoveries, but believes the Company has responded to this issue and that a directive by the Commission is not required at this time.

Finally, in response to testimony presented by the RRC witness, Mr. Hollewa, concerning an alternative GCR factor contingency mechanism and certain recommendations pertaining to storage, Staff states the Company's witness, Mr. Huzzey, has responded to those recommendations. Staff states it supports the recommendations presented by Mr. Huzzey in that rebuttal testimony, and opposes any alternative mechanism offered in this case.

<u>The Attorney General</u>

The Attorney General states the partial settlement agreement in this case does not resolve all questions concerning the reasonableness and prudence of the decisions underlying MGUC's GCR plan. The Attorney General contends that some information in this case is incomplete such that the Commission should direct the Company to provide additional information about its GCR planning pursuant to MCL 460.6h(4) in the next plan case.

The Attorney General asserts MGUC's filed supply plan is incomplete. Exhibit AG-1 shows the Company's currently contracted firm and interruptible transportation and storage capacity leave a shortfall of approximately 28,000 Dth; MGUC plans to use an interruptible transportation contract to provide additional gas supplies during peak periods, which creates a significant risk; and MGUC needs a more complete analysis of how the Company can use storage to meet load demands. The Attorney General recommends the Commission direct the Company to include in its next GCR plan filing an explanation of the necessity for the interruptible transportation contract with Consumers Energy; include an exhibit beginning with its next GCR plan filing demonstrating how its transportation and storage capacity will meet its peak day demand requirements; and explain in detailed testimony how any shortfall or excess in capacity will be addressed.

The Attorney General represents the record demonstrates that dollar-cost-averaging, fixed-price purchases conflict with the mandate in MCL 460.6h(6) to minimize GCR costs. The Attorney General contends the problem inherent with dollar-cost-averaging is it requires specific quantities of gas purchases at fixed prices at specific times and eliminates the fundamental goal of MCL 460.6h, which is to retain flexibility to change GCR plans when merited. It can also result, the Attorney General opines, in too much high cost natural gas in the supply mix. The Attorney General states further the record also demonstrates that quartile purchasing is not effective unless it is limited to periods when gas prices fall within or below the lowest (first) quartile of a 36-month historical period. The Attorney General therefore recommends that the Commission reject the dollar-cost-averaging method and modify the quartile method as proposed by his witness, Mr. Coppola.[7]

Finally, the Attorney General states that when an under-recovery in a prior year is significant, as it is in the case, misleading price signals about current GCR costs for GCR customers are created. Those misleading price signals can result in a downward spiral in demand from GCR customers, which in turn can increase average GCR expense even when gas prices decline or remain stable. The Attorney General therefore recommends that the Commission either require MGUC to develop more accurate and timely forecasting and to adjust factors at the end of each GCR year or order reconsideration of the historical refund method to create more accurate price signals for GCR customers.

The RRC

The RRC did not support its evidentiary presentation in this case with a Brief or Reply Brief.

DISCUSSION AND FINDINGS

The partial settlement approved by the Commission in this matter provided for a GCR factor of $7.4350 per Mcf; a contingency mechanism for that factor per Attachment 1 to the settlement; and an immediate moratorium on the FPP program relating to purchases for 2012-2013 and beyond. The settlement also specifically allows for the GCR factor to be modified in a final order of the Commission.

[7] "Under my proposal, the Commission should modify the Fixed Price Gas Purchase Guidelines immediately to use only the First Quartile price signals and abandon the pro-rata Fixed Price Plan. The Commission should also lower the maximum amount of fixed price purchases to half of the current level to15% of annual purchases and 25% of winter purchases. When combined with gas withdrawn from storage, which would have been purchased earlier in the year, my revised guidelines would provide gas supply price assurance for up to 62% of the Company's winter gas demand." 2 Tr 166.

The Attorney General and RRC raised several issues in their evidentiary presentations. In his Brief and Reply Brief, the Attorney General focused his attention and support on several discrete matters. The RRC did not support its presentation with either a Brief or Reply Brief. The following discussion resolves those few remaining matters raised by the Attorney General.

The Attorney General has recommended the Commission direct the Company to include in its next GCR plan filing certain additional information concerning the use of transportation and storage to meet peak day demand. The Company should also be required to justify the use of the interruptible transportation contract with Consumers Energy. MGUC has addressed these proposals in its rebuttal testimony. The Administrative Law Judge finds the Company's response persuasive. MGUC has demonstrated how it has in the past met peak day demand. The Company represents through the testimony of its witness that it will assess current and anticipated storage and transportation requirements and examine alternatives that provide for safe, reliable and cost effective service. This evidence was credible and not refuted. The writer agrees with the MGUC that it is not uncommon to finalize supply and capacity arrangements during the plan period. With regard to the concerns expressed by the Attorney General regarding the interruptible transportation contract with Consumers Energy, the Administrative Law Judge finds that these concerns are founded solely on speculation and unsupported by past experience. The Administrative Law Judge therefore recommends that the Commission reject the Attorney General's proposal to require MGUC to provide the proposed additional information in its next plan filing.

The Attorney General has recommended that the Commission modify the quartile method in the manner proposed by Mr. Coppola and reject the dollar-cost-averaging method. The Administrative Law Judge agrees with MGUC that this recommendation is not relevant in this 2010-2011 GCR plan. The record shows that pursuant to the currently approved FPP, MGUC has acquired all of the Company's anticipated fixed price requirements for the 2010-2011 GCR plan, as well as the 2011-2012 GCR plan. Furthermore, there does not appear to be a discernable dispute with regard to MGUC's 5-year forecast. The Administrative Law Judge therefore finds that because MGUC has acquired all of its fixed price purchases for the 2011-2012 GCR plan period, and the parties have agreed in the partial settlement to a moratorium on future FPPs for 2012-2013 and beyond, the issue of what should be the appropriate methodology for securing fixed price gas, if any, would be appropriate for a future GCR plan proceeding.

The Attorney General's final recommendation is that the Commission either require MGUC to develop more accurate and timely forecasting and to adjust factors at the end of each GCR year or in the alternative, order reconsideration of the historical refund method to create more accurate price signals for GCR customers. The Administrative Law Judge agrees with MGUC and the Staff that such a directive would be inappropriate. Mr. Tyler addressed this matter in his rebuttal testimony and represented that the Company has undertaken a concerted effort to improve its forecasting model and detailed the actions taken. MGUC represents that it will continue to work to improve its GCR forecasting model. *See* 2 Tr 40-42. The Attorney General has offered no specific suggestions for improvement. The Administrative Law Judge therefore recommends that the Commission reject this proposal by the Attorney General.

Finally, an alternative to the GCR factor of $7.4350 per Mcf established in the partial settlement has not been presented and supported. The Administrative Law Judge therefore finds it unnecessary for the Commission to order a different GCR factor.

CONCLUSION

All contentions of the parties not specifically addressed and determined herein are rejected, the Administrative Law Judge having given full consideration to all evidence of record and arguments in arriving at the findings and conclusions set forth in this Proposal for Decision.

Based upon the foregoing discussion and findings, the Administrative Law Judge recommends that the Commission issue its order approving MGUC's 2010-11 GCR plan as supplemented/revised, a base GCR factor of $7.4350 per Mcf, and MGUC's contingency matrix; and finding that MGUC's five-year forecast meets the requirements of Act 304.

STATE OFFICE OF ADMINISTRATIVE
HEARINGS AND RULES
For the Michigan Public Service Commission

James N. Rigas

Digitally signed by James N. Rigas
DN: cn=James N. Rigas, c=US, email=jnrigas@michigan.gov
Date: 2010.12.03 15:58:46 -05'00'

James N. Rigas
Administrative Law Judge

Issued and Served: December 3, 2010